

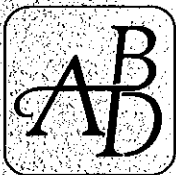
**TUSCOLA AREA AIRPORT AUTHORITY**

Caro, Michigan

Report on Financial Statements  
Period Ended June 30, 2008

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# ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.

Certified Public Accountants

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Gary R. Anderson, CPA  
Jerry J. Bernhardt, CPA  
Thomas B. Doran, CPA  
Valerie J. Hartel, CPA  
Terry L. Haske, CPA  
Jamie L. Peasley, CPA  
Timothy Franzel

Robert L. Tuckey, CPA

November 21, 2008

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Tuscola Area Airport Authority  
Caro, MI 48723

We have audited the basic financial statements of the Tuscola Area Airport Authority (the "Authority") as of June 30, 2008 and 2007 and for the years ended, as listed in the table of contents. These basic financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2008 and 2007 and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2008, on our consideration of Tuscola Area Airport Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis information on pages i through vii, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

715 East Frank Street  
Caro, MI 48723

989-673-3137  
800-234-8829  
Fax 989-673-3375

[www.atbdcpa.com](http://www.atbdcpa.com)  
[cpa@atbdcpa.com](mailto:cpa@atbdcpa.com)

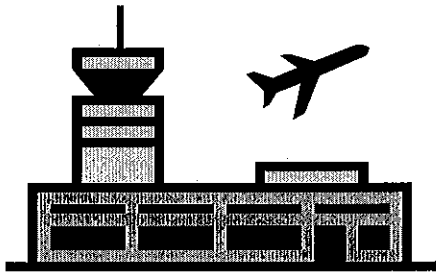
Office locations in Caro,  
Cass City & Marlette

Board of Directors  
Tuscola Area Airport Authority  
November 21, 2008

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Tuscola Area Airport Authority's basic financial statements. The supplementary information is presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Anderson, Tuckey, Bernhardt & Doran, P.C.*

ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS



**Tuscola Area Airport Authority**  
**157 N. State Street**  
**Caro, MI 48723**  
**989-673-2849**  
**989-673-2517 Fax**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **Tuscola Area Airport Authority Management's Discussion and Analysis For the Years Ended June 30, 2008 and 2007**

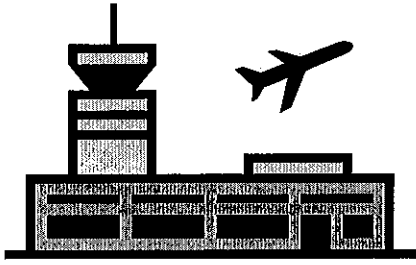
The following Management's Discussion and Analysis (MD&A) of the Tuscola Area Airport Authority's activities is intended to provide an overview of the Authority's financial condition. The information presented in this management discussion and analysis should be considered in conjunction with the statement of net assets, the statement of revenue, expenses, and changes in net assets, the statement of cash flows, and other statistical information contained in this report.

#### **FINANCIAL OPERATIONS HIGHLIGHTS:**

- The Tuscola Area Airport has improved its infrastructure and increased operating revenue over 2007
- The Airport Authority after capital contributions (amounts received by Federal and State Government for Airport Authority projects) has a net income for 2007-08 of \$147,016.
- Cash flows from investing activities has increased by over \$3,600.

#### **FINANCIAL OPERATIONS OVERVIEW:**

The Tuscola Area Airport Authority's goal to improve airport facilities and services is being met by the Airport Authority's objective to increase traffic into the airport to generate growth and to make further infrastructure improvements, so as to improve services to the flying public and increase economic development in the local area.



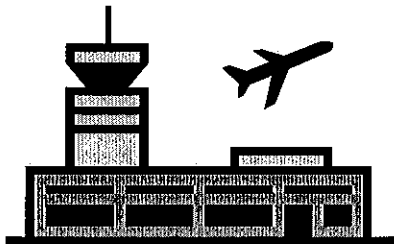
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**157 N. State Street**  
**Caro, MI 48723**  
**989-673-2849**  
**989-673-2517 Fax**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

### **FINANCIAL POSITION SUMMARY**

A condensed summary of the Authority's changes in net assets for the years ended June 30, 2008 and 2007 are presented as follows:

|   | <u><b>2008</b></u>        | <u><b>2007</b></u>        |
|---|---------------------------|---------------------------|
| <b>Assets</b>                                 |                           |                           |
| Current                                       | \$ 77,575                 | \$ 106,658                |
| Noncurrent                                    | <u>3,737,574</u>          | <u>3,453,758</u>          |
| <b>Total Assets</b>                           | <b>\$3,815,149</b>        | <b>\$3,560,416</b>        |
| <b>Liabilities</b>                            |                           |                           |
| Current                                       | 51,710                    | 38,752                    |
| Noncurrent                                    | 146,434                   | 51,675                    |
| <b>Total Liabilities</b>                      | <u><b>198,144</b></u>     | <u><b>\$ 90,427</b></u>   |
| <b>Net Assets</b>                             |                           |                           |
| Invested in Capital                           | \$ 3,550,463              | \$3,366,273               |
| Unrestricted                                  | <u>66,542</u>             | <u>103,716</u>            |
| <b>Total Net Assets</b>                       | <b>3,617,005</b>          | <b>3,469,989</b>          |
| <b>Total Liabilities<br/>&amp; Net Assets</b> | <u><b>\$3,815,149</b></u> | <u><b>\$3,560,416</b></u> |



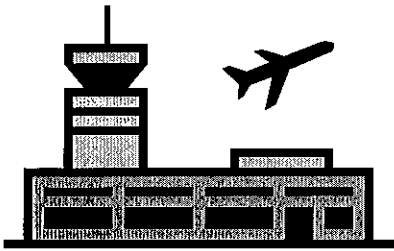
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**Caro, MI 48723**  
**989-673-2849**  
**989-673-2517 Fax**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

### **SUMMARY OF CHANGES IN NET ASSETS**

A condensed summary of the Airport Authority's changes in net assets for the years ended June 30, 2008 and 2007 are presented below as follows:

|   | <b><u>2008</u></b>       | <b><u>2007</u></b>       |
|---|--------------------------|--------------------------|
| <b>Operating Revenue</b>                                  | <b>\$ 121,421</b>        | <b>\$ 118,043</b>        |
| <b>Operating Expenses</b>                                 | <b>306,816</b>           | <b>253,891</b>           |
| <b>Operating Loss</b>                                     | <b>(185,395)</b>         | <b>(135,848)</b>         |
|   |                          |                          |
| <b>Non Operating Revenues<br/>(Expenses)</b>              | <b><u>74,845</u></b>     | <b><u>62,461</u></b>     |
| <b>Net Income (Loss) Before<br/>Capital Contributions</b> | <b>(110,550)</b>         | <b>(73,387)</b>          |
| <b>Capital Contributions</b>                              | <b><u>257,566</u></b>    | <b><u>668,837</u></b>    |
| <b>Net Income (Loss)</b>                                  | <b>\$ <u>147,016</u></b> | <b>\$ <u>595,450</u></b> |
|   |                          |                          |



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**157 N. State Street**  
**Caro, MI 48723**  
**989-673-2849**  
**989-673-2517 Fax**

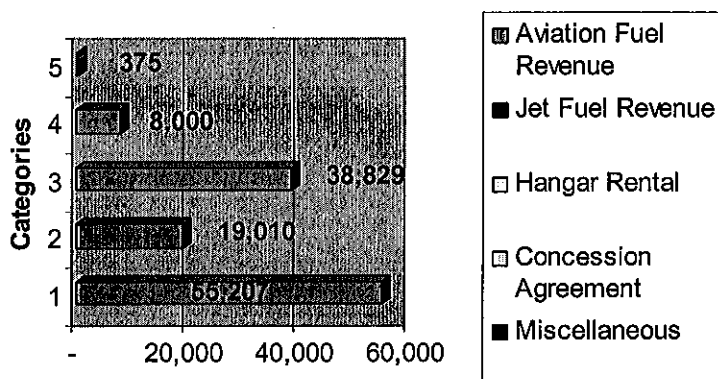
## **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

### **Revenues**

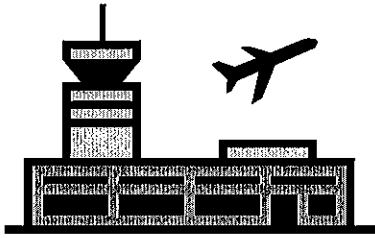
The following chart shows the Tuscola Area Airport Authority's major operating revenues categories and their relation to the total operating expenses for the years ending June 30, 2008 and 2007, as presented below:

|                                | <u><b>2008</b></u> | <u><b>2007</b></u> |
|--------------------------------|--------------------|--------------------|
| Aviation Fuel Sales            | \$ 55,207          | \$ 63,002          |
| Jet Fuel Sales                 | 19,010             | 9,794              |
| Hangar Rentals                 | 38,829             | 35,051             |
| Concession Agreement           | 8,000              | 8,000              |
| Miscellaneous Revenue          | <u>375</u>         | <u>2,196</u>       |
| <b>Total Operating Revenue</b> | <b>\$ 121,421</b>  | <b>\$ 118,043</b>  |

**Operating Revenues - 2008**







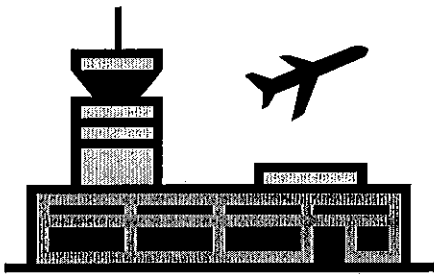
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**157 N. State Street**  
**Caro, MI 48723**  
**989-673-2849**  
**989-673-2517 Fax**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

### **Expenses**

The following chart depicts the Tuscola Area Airport Authority's major operating expense categories excluding depreciation and their relation to the total operating expense for the years ending June 30, 2008 and 2007 as presented below:

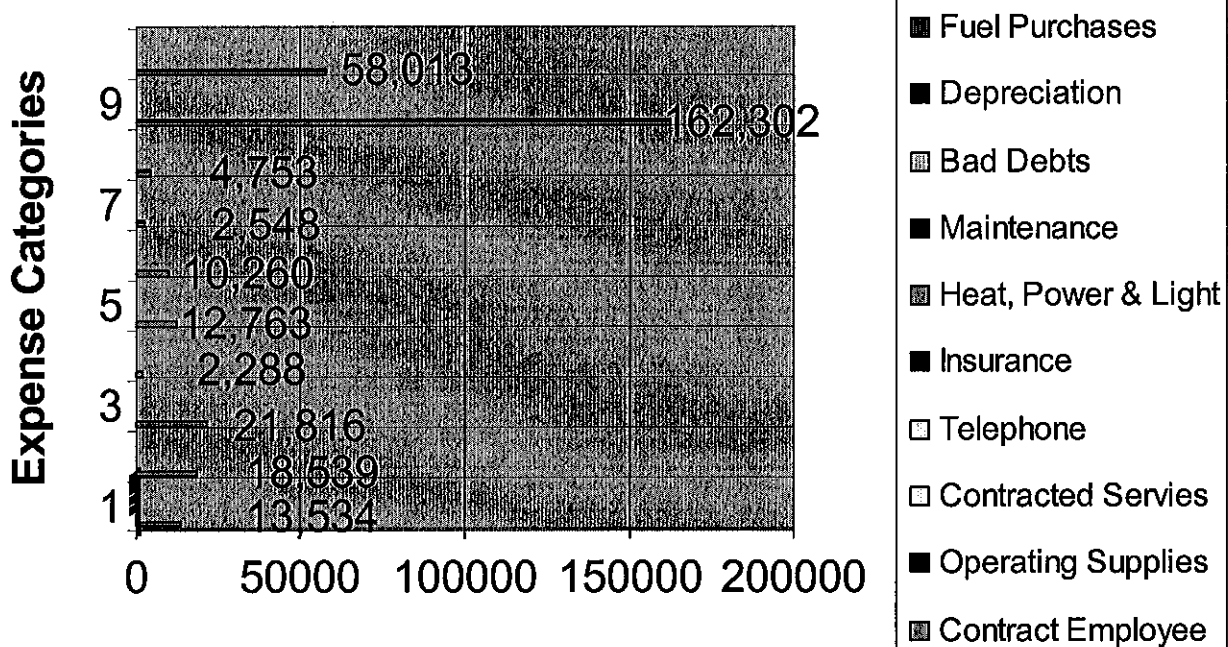
|                                      | <u><b>2008</b></u>       | <u><b>2007</b></u>       |
|--------------------------------------|--------------------------|--------------------------|
| <b>Contract Employees</b>            | <b>\$ 13,534</b>         | <b>\$ 12,995</b>         |
| <b>Operating Supplies</b>            | <b>18,539</b>            | <b>10,525</b>            |
| <b>Contracted Services</b>           | <b>21,816</b>            | <b>11,180</b>            |
| <b>Telephone</b>                     | <b>2,288</b>             | <b>2,224</b>             |
| <b>Insurance</b>                     | <b>12,763</b>            | <b>15,282</b>            |
| <b>Heat, Light &amp; Power</b>       | <b>10,260</b>            | <b>6,614</b>             |
| <b>Maintenance and Miscellaneous</b> | <b>2,548</b>             | <b>4,288</b>             |
| <b>Bad Debts</b>                     | <b>4,573</b>             | <b>2,122</b>             |
| <b>Depreciation</b>                  | <b>162,302</b>           | <b>151,211</b>           |
| <b>Fuel Purchases</b>                | <b><u>58,013</u></b>     | <b><u>37,440</u></b>     |
|                                      |                          |                          |
| <b>Total Operating Expenses</b>      | <b>\$ <u>306,816</u></b> | <b>\$ <u>253,891</u></b> |
|                                      |                          |                          |

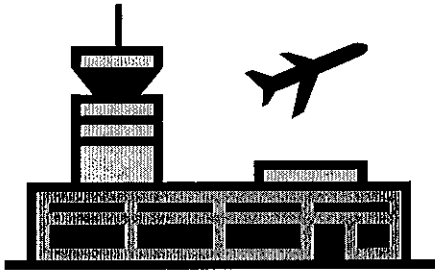


**Tuscola Area Airport Authority**  
**157 N. State Street**  
**Caro, MI 48723**  
**989-673-2849**  
**989-673-2517 Fax**

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Operating Expenses 2008





**Tuscola Area Airport Authority**  
**157 N. State Street**  
**Caro, MI 48723**  
**989-673-2849**  
**989-673-2517 Fax**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

### **FINANCIAL STATEMENTS**

Tuscola Area Airport Authority's financial statements are prepared on an accrual basis in accordance with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board. The Authority accounts for its activity in a single enterprise fund with revenues recognized when earned, not when received. Expenses are recognized when incurred, not when paid. Capital Assets are depreciated (except land) over their useful lives.

### **CONTACTING THE TUSCOLA AREA AIRPORT AUTHORITY'S FINANCIAL MANAGEMENT**

This financial report is intended to provide taxpayers, customers, and bondholders with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the Airport Authority Business Office, 157 N. State Street, Caro, Michigan 48723, or by telephone at 989-673-2849.

## BASIC FINANCIAL STATEMENTS

# TUSCOLA AREA AIRPORT AUTHORITY

## Statement of Net Assets

|  | June 30                    |                            |
|--|----------------------------|----------------------------|
|  | <u>2008</u>                | <u>2007</u>                |
| <b><u>ASSETS</u></b>                             |                            |                            |
| CURRENT ASSETS:                                  |                            |                            |
| Cash and equivalents                             | \$ 34,100                  | \$ 62,262                  |
| Accounts receivable - net                        | 10,268                     | 7,869                      |
| Inventory  | 33,207                     | 36,527                     |
| Total Current Assets                             | <u>77,575</u>              | <u>106,658</u>             |
| CAPITAL ASSETS:                                  |                            |                            |
| Fixed assets                                     | 4,787,391                  | 4,341,273                  |
| Less: Accumulated Depreciation                   | <u>(1,049,817)</u>         | <u>(887,515)</u>           |
| Capital Assets, net                              | <u>3,737,574</u>           | <u>3,453,758</u>           |
| <b>TOTAL ASSETS</b>                              | <b><u>\$ 3,815,149</u></b> | <b><u>\$ 3,560,416</u></b> |
| <br><b><u>LIABILITIES &amp; NET ASSETS</u></b>   |                            |                            |
| CURRENT LIABILITIES:                             |                            |                            |
| Accounts payable                                 | \$ 295                     | \$ 2,079                   |
| Accrued sales tax                                | 937                        | 863                        |
| Deferred revenue                                 | 9,801                      | -                          |
| Current maturities of long-term debt             | <u>40,677</u>              | <u>35,810</u>              |
| Total Current Liabilities                        | <u>51,710</u>              | <u>38,752</u>              |
| NONCURRENT LIABILITIES:                          |                            |                            |
| Notes payable - long-term                        | <u>146,434</u>             | <u>51,675</u>              |
| TOTAL LIABILITIES                                | <u>198,144</u>             | <u>90,427</u>              |
| NET ASSETS:                                      |                            |                            |
| Invested in capital assets - Net of related debt | 3,550,463                  | 3,366,273                  |
| Unrestricted                                     | <u>66,542</u>              | <u>103,716</u>             |
| Total Net Assets                                 | <u>3,617,005</u>           | <u>3,469,989</u>           |
| <b>TOTAL LIABILITIES &amp; NET ASSETS</b>        | <b><u>\$ 3,815,149</u></b> | <b><u>\$ 3,560,416</u></b> |

The accompanying footnotes are an integral part of the financial statements.

# TUSCOLA AREA AIRPORT AUTHORITY

## Statement of Revenue, Expenses, and Change in Net Assets

|  | June 30             |                     |
|--|---------------------|---------------------|
|  | <u>2008</u>         | <u>2007</u>         |
| OPERATING REVENUE:                               |                     |                     |
| Gas sales  | \$ 55,207           | \$ 63,002           |
| Jet fuel   | 19,010              | 9,794               |
| Hangar rentals                                   | 38,829              | 35,051              |
| Concession agreement                             | 8,000               | 8,000               |
| Miscellaneous income                             | 375                 | 2,196               |
|  | <u>121,421</u>      | <u>118,043</u>      |
| Total Operating Revenue                          |                     |                     |
| OPERATING EXPENSES:                              |                     |                     |
| Contract Employees                               | 13,534              | 12,995              |
| Operating supplies                               | 18,539              | 10,525              |
| Contracted services                              | 21,816              | 11,180              |
| Telephone  | 2,288               | 2,244               |
| Insurance  | 12,763              | 15,282              |
| Heat, light & power                              | 10,260              | 6,614               |
| Maintenance & miscellaneous                      | 2,548               | 4,288               |
| Bad Debts  | 4,753               | 2,112               |
| Depreciation                                     | 162,302             | 151,211             |
| Fuel purchases                                   | 58,013              | 37,440              |
|  | <u>306,816</u>      | <u>253,891</u>      |
| Total Operating Expenses                         |                     |                     |
| OPERATING INCOME (LOSS)                          | <u>(185,395)</u>    | <u>(135,848)</u>    |
| NON-OPERATING REVENUE (EXPENSES):                |                     |                     |
| Contributions from members and other units       | 78,417              | 67,715              |
| Gain on sale of asset                            | -                   | 362                 |
| Interest Income                                  | 1,514               | 371                 |
| Interest expense                                 | (5,086)             | (5,987)             |
|  | <u>74,845</u>       | <u>62,461</u>       |
| TOTAL NON-OPERATING REVENUE (EXPENSES)           |                     |                     |
| NET INCOME (LOSS) - Before capital contributions | (110,550)           | (73,387)            |
| CAPITAL CONTRIBUTIONS                            | <u>257,566</u>      | <u>668,837</u>      |
| NET INCOME (LOSS)                                | 147,016             | 595,450             |
| NET ASSETS - JULY 1                              | <u>3,469,989</u>    | <u>2,874,539</u>    |
| NET ASSETS - JUNE 30                             | <u>\$ 3,617,005</u> | <u>\$ 3,469,989</u> |

The accompanying footnotes are an integral part of the financial statements.

# TUSCOLA AREA AIRPORT AUTHORITY

## Statement of Cash Flows

|  | June 30          |                  |
|--|------------------|------------------|
|  | <u>2008</u>      | <u>2007</u>      |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                     |                  |                  |
| Charges and rentals  | \$ 119,022       | \$ 113,670       |
| Cash paid to Contract employees                                  | (13,534)         | (12,995)         |
| Cash paid to suppliers   | (129,370)        | (110,128)        |
| Net cash provided by (used in) operating activities              | (23,882)         | (9,453)          |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>  |                  |                  |
| Principal payments on debt                                       | (35,810)         | (34,250)         |
| Interest paid  | (5,086)          | (5,987)          |
| Capital expenditures   | (448,618)        | (642,785)        |
| Contributions from members                                       | 88,218           | 67,715           |
| Contributed Capital  | 257,566          | 668,837          |
| New loans  | 135,436          | -                |
| Donations  | -                | 362              |
| Net cash used in capital and related financing activities        | (8,294)          | 53,892           |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                     |                  |                  |
| Proceeds from sale of assets                                     | 2,500            | -                |
| Interest earned on investments                                   | 1,514            | 371              |
| Net cash provided by investing activities                        | 4,014            | 371              |
| <b>NET INCREASE (DECREASE) IN CASH &amp; CASH EQUIVALENTS</b>    | (28,162)         | 44,810           |
| <b>CASH &amp; CASH EQUIVALENTS AT BEGINNING OF YEAR</b>          | 62,262           | 17,452           |
| <b>CASH &amp; CASH EQUIVALENTS AT END OR YEAR</b>                | <u>34,100</u>    | <u>62,262</u>    |
| <b>Balance Sheet Classification of Cash and Cash Equivalents</b> |                  |                  |
| Cash and investments   | 34,100           | 62,262           |
| Total cash and cash equivalents                                  | <u>\$ 34,100</u> | <u>\$ 62,262</u> |

Supplemental Cash Flow Information - Capital contributions amounting to \$257,566 and \$668,837 were received from both the federal government and the State of Michigan during 2008 and 2007, respectively, and were recorded as additions to property, buildings, equipment, and Authority revenue.

The accompanying footnotes are an integral part of the financial statements.

Reconciliation of operating loss to net cash from operating activities:

|  | June 30            |                   |
|--|--------------------|-------------------|
|  | 2008               | 2007              |
| Operating income (loss)  | \$ (185,395)       | \$ (135,848)      |
| Adjustments to reconcile operating loss to net cash provided<br>by operating activities: |                    |                   |
| Depreciation and amortization  | 162,302            | 151,211           |
| (Increase) decrease in assets:   |                    |                   |
| Accounts receivable  | (2,399)            | (4,373)           |
| Inventory  | 3,320              | (18,807)          |
| Increase (decrease) in liabilities:  |                    |                   |
| Accounts payable   | (1,784)            | (1,336)           |
| Accrued expenses   | 74                 | (300)             |
| Net cash provided by (used in) operating activities                                      | <u>\$ (23,882)</u> | <u>\$ (9,453)</u> |



## **TUSCOLA AREA AIRPORT AUTHORITY**

### **Notes to the Financial Statements**

**June 30, 2008 and 2007**

#### **NOTE 1 – DESCRIPTION OF TUSCOLA AREA AIRPORT AUTHORITY ORGANIZATION:**

##### **REPORTING ENTITY:**

The TAAA (Authority) was incorporated in 1993 under the provisions of Act 206 of the Public Acts of 1957, as amended by Act 410 of the Public Acts of 1978, and by Act 312 of the Public Acts of 1982.

The municipal corporations that created the Authority include the Villages of Caro, Cass City and Kingston as well as the Townships of Almer and Elkland, all in the County of Tuscola, State of Michigan.

The purpose of this Authority is to exercise any and all powers necessary for the purpose of planning, promoting, acquiring, constructing, improving, enlarging, extending, owning, maintaining and operating the landing, navigational and building facilities of the Tuscola Area Airport, formerly known as the Caro Municipal Airport.

The Authority is governed under the direction of a board of as many directors as are appointed to it by member municipalities, as shall be determined from time to time, but not less than four (4).

The Board maintains its own accounting system; employs a manager; adopts rules, regulations, policies governing employees, property, and facilities; prepares an annual financial report; and adopts by-laws, policies, and procedures deemed necessary for conduct of business. The Authority is financed through grants and loans from Federal and State government, fees from users, contributions from governmental entities and other.

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14 "The Financial Reporting Entity", these financial statements present the Authority (the primary government). The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if data were not included. The Authority has no component units.

#### **NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

##### **BASIS OF PRESENTATION:**

The financial activities of the Authority are recorded in a single fund described as follows:

##### **Proprietary Fund:**

*Enterprise Funds* - Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

**TUSCOLA AREA AIRPORT AUTHORITY**  
Notes to the Financial Statements  
June 30, 2008 and 2007

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES(Continued):**

**BASIS OF ACCOUNTING:**

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Authority applies all applicable GASB pronouncements. Additionally, the Authority follows all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless pronouncements conflict with or contradict GASB pronouncements. After November 30, 1989, the Authority only applies applicable GASB pronouncements.

These full accrual financial statements are reported using the economic resources measurement focus. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**INVENTORIES:**

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventories consisting of expendable supplies held for consumption are recorded as expenditures when consumed rather than when purchased.

**CAPITAL ASSETS AND DEPRECIATION:**

All assets are recorded at cost. Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets. Cost of maintenance and repairs are charged to expense when incurred. Capital assets are defined by the Authority with an initial individual cost of more than \$2,000 and an estimated useful life in excess of one year. Estimated useful lives, in years, for depreciable assets are as follows:

|                   |             |
|-------------------|-------------|
| Land Improvements | 20-40 years |
| Buildings         | 30-50 years |
| Equipment         | 5-20 years  |

**BUDGETARY PROCEDURES:**

Budgetary procedures are established pursuant to Act 312, P.A. 1982, which requires the Board to approve a budget for the Authority. The Authority follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to July 1, the budget is legally enacted through passage of a resolution.
2. Any revisions of the budget must be approved by the Board.
3. Formal budgetary integration is employed as a management control device during the year for the Authority.
4. The budget is adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts are as originally adopted, or as amended by the Board during the year. Individual amendments were not material in relation to the original appropriations that were amended.
5. Significant violations of the uniform budgeting act were noted in depreciation expenses. The actual expenses exceeded budget by \$113,302 for 2008, and \$102,643 for 2007.

**TUSCOLA AREA AIRPORT AUTHORITY**  
Notes to the Financial Statements  
June 30, 2008 and 2007

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued):**

**REVENUE/EXPENSES:**

Operating revenues and expenses generally result from providing services. All other revenues and expenses are reported as non-operating.

**USE OF ESTIMATES:**

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**NOTE 3 – CASH AND CASH EQUIVALENTS:**

**Interest rate risk.** In accordance with its investment policy, the Authority will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the Authority's cash requirements.

**Credit risk.** State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

**Concentration of credit risk.** The Authority will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Authority's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

**Custodial credit risk - deposits.** In the case of deposits, this is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. As of June 30, 2008 and 2007 all of the Authority's bank balance of \$34,100 and \$63,410, respectively, was insured and none was exposed to custodial credit risk. Authority places its deposits with high quality financial institutions. Although such deposits exceed federally insured limits, they are, in the opinion of the Authority, subject to minimal risk.

**Investment policy.** The Authority has not adopted an investment policy as required by PA 196 of 1997.

**NOTE 4 – ACCOUNTS RECEIVABLE:**

Accounts receivable consist of the following:

|                                      | <u>JUNE 30, 2008</u> | <u>JUNE 30, 2007</u> |
|--------------------------------------|----------------------|----------------------|
| Customer Receivables                 | \$16,741             | \$12,975             |
| Credit Card Receivable               | <u>527</u>           | <u>144</u>           |
|                                      | 17,268               | 13,119               |
| Less allowance for doubtful accounts | <u>( 7,000)</u>      | <u>( 5,250)</u>      |
| Total                                | <u>\$ 10,268</u>     | <u>\$ 7,869</u>      |

# TUSCOLA AREA AIRPORT AUTHORITY

## Notes to the Financial Statements

June 30, 2008 and 2007

### **NOTE 5 - CAPITAL ASSETS:**

A summary of changes in the Authority's capital assets follows:

|                                     | <u>Balance<br/>July 1, 2007</u> | <u>Additions</u>         | <u>Deletions</u>        | <u>Balance July<br/>1, 2008</u> |
|-------------------------------------|---------------------------------|--------------------------|-------------------------|---------------------------------|
| Assets not being depreciated – land | \$ 248,445                      |                          |                         | \$ 248,445                      |
| Other capital assets:               |                                 |                          |                         |                                 |
| Land improvements                   | 2,772,016                       | \$ 267,000               |                         | 3,039,016                       |
| Buildings                           | 1,046,813                       | 173,251                  |                         | 1,220,064                       |
| Fuel Tank                           | 2,880                           |                          |                         | 2,880                           |
| Equipment                           | <u>266,119</u>                  | <u>13,367</u>            | <u>\$ 2,500</u>         | <u>276,986</u>                  |
| Subtotal                            | 4,087,828                       | 453,618                  | 2,500                   | 4,538,946                       |
| Accumulated depreciation:           |                                 |                          |                         |                                 |
| Land improvements                   | (584,132)                       | (104,088)                |                         | (688,220)                       |
| Buildings                           | (174,928)                       | (36,138)                 |                         | (211,066)                       |
| Fuel Tank                           | (708)                           | (144)                    |                         | (852)                           |
| Equipment                           | <u>(127,747)</u>                | <u>(21,932)</u>          |                         | <u>(149,678)</u>                |
| Subtotal                            | (887,515)                       | (162,302)                |                         | (1,049,817)                     |
| Net other capital assets            | <u>3,200,313</u>                | <u>291,316</u>           | <u>(2,500)</u>          | <u>3,489,129</u>                |
| Net capital assets                  | <u><u>\$3,448,758</u></u>       | <u><u>\$ 291,316</u></u> | <u><u>(\$2,500)</u></u> | <u><u>\$3,737,574</u></u>       |

Depreciation for the fiscal year ended June 30, 2008 and 2007 amounted to \$162,302 and \$151,211.

**TUSCOLA AREA AIRPORT AUTHORITY**  
Notes to the Financial Statements  
June 30, 2008 and 2007

**NOTE 6 – CHANGES IN LONG-TERM DEBT:**

The long-term debt of the Authority may be summarized as follows:

|  | <b><u>BALANCE</u></b><br><b><u>6/30/07</u></b> | <b><u>ADDITIONS</u></b><br><b><u>(REDUCTIONS)</u></b> | <b><u>BALANCE</u></b><br><b><u>6/30/08</u></b> |
|--|--|---|--|
| Installment purchase contract payable to a bank, due in monthly installments of \$2,468 over 180 months at 6.25%. Proceeds were used to erect an airplane hangar. No formal security agreement was drawn up. | \$ 72,569                                      | \$(25,810)  | \$46,759                                       |
| Note payable dated December 23, 1997 to Village of Caro due in full in 7 years at 2.5% per annum. Interest is accrued and paid annually. Proceeds used for working capital. Debt is unsecured.               | 14,916   | (10,000)  | 4,916  |
| Note payable to an excavating company due in 2 years at 8% per annum, payments are interest only for 2 years.  | 0  | 35,436  | 35,436   |
| Note payable to the Michigan Aeronautics Commission, due in 10 years at \$4.1% per annum. Proceeds used to build a new maintenance hangar.   | <u>0</u>                                       | <u>100,000</u>  | <u>100,000</u>                                 |
| TOTAL LONG-TERM DEBT   | <u>\$ 87,485</u>                               | <u>\$ 99,626</u>                                      | 187,110  |
| LESS: CURRENT PORTION  |  |   | <u>(40,677)</u>                                |
| LONG-TERM PORTION  |  |   | <u>\$146,433</u>                               |

The annual requirements to amortize long-term debt outstanding at June 30, 2008 is as follows:

| <b><u>YEAR ENDING</u></b><br><b><u>JUNE 30,</u></b> | <b><u>PRINCIPAL</u></b> | <b><u>INTEREST</u></b> | <b><u>TOTAL</u></b> |
|---|-------------------------|------------------------|---------------------|
| 2009  | \$40,677                | \$9,255                | \$49,932            |
| 2010  | 63,355                  | 6,396                  | 69,751              |
| 2011  | 8,985                   | 3,406                  | 12,391              |
| 2012  | 9,353                   | 3,038                  | 12,391              |
| 2013 and after                                      | <u>64,741</u>           | <u>9,606</u>           | <u>74,347</u>       |
| TOTAL   | <u>\$187,110</u>        | <u>\$31,701</u>        | <u>\$218,811</u>    |

**NOTE 7 – RISK MANAGEMENT:**

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, contract employee injuries, unemployment benefits, as well as medical and workman's compensation benefits provided to contract employees. The Authority has purchased commercial insurance for fleet equipment and tort claims, certain property and equipment damage and theft.

Settled claims for the commercial insurance have not exceeded the amount of coverage in any of the past three years. There was no reduction in coverage obtained through commercial insurance during the past year.

**TUSCOLA AREA AIRPORT AUTHORITY**  
Notes to the Financial Statements  
June 30, 2008 and 2007

**NOTE 8 – CONTRIBUTED CAPITAL:**

For fiscal years ended June 30, 2005 and prior Contributed Capital equity account existed to account for funds provided by the federal Government and State of Michigan, to the Authority, to purchase buildings and equipment. Depreciation on buildings and equipment purchased with State and Federal Funds was charged against this account.

Effective for fiscal years beginning July 1, 2005, and for all subsequent years, all State/Federal Capital Grants are recorded as revenue on the Statement of Revenues, Expenses and Changes in Net Assets. For the years ended June 30, 2008 and 2007, \$257,566 and \$668,837, of State/Federal Capital Grants were recorded as revenue.

Contributed Capital balances as of July 1, 2005 has been restated.

**NOTE 9 - OPERATING LEASES:**

The Authority leased a tractor under an operating lease agreement that expired in 2007. Lease expenses amounted to \$1,514 and \$505 for the years ended June 30, 2008 and 2007 respectively.

**NOTE 10 – CONCESSION AGREEMENT:**

For the mutual benefit of the flying public, the Tuscola Area Airport Authority "The Authority" and a Developer "the Developer" entered into a concession agreement for the building of a Hangar Building. The Authority is the sole owner of a parcel of property (the "Airport Property") on which the Authority operates an airport for the use of the public (the "Airport").

Whereas, it is the intent and purpose of the Authority to grant and create a "concession at a public airport," as these terms are used in Act 189 of 1953, to benefit the traveling public and to provide facilities and services that might not otherwise have been available to the traveling public at the Airport Property. The concession agreement was reviewed by the Indianfields Township assessor and the Michigan Department of Treasury. It was the opinion of both that the Airport Authority and "the Developer" will not pay any property taxes on the building, or land on Airport Authority property.

The Airport Property is open for such use, or such other hours as shall be specified by the Authority, and that such facilities and services are available at rates which are reasonable, given the Authority's purpose in creating the concession and recognizing that such rates must be sufficient to encourage The Developer as the concessionaire to invest the time and money in creating and operating such a concession operation, which concession operation will not be in any way subsidized by the Authority. The Developer shall bear full responsibility for the repair, replacement and maintenance of all buildings and any improvements, additions, and alterations to such buildings on the Concession Area. Any new construction will require the approval of the Authority.

The Authority desires to retain The Developer to develop, manage and operate the Airplane Hanger Project on the Concession Area, to operate related concessions thereon, including providing space to the public for airplane storage and/or parking, and The Developer desires to obtain such rights from the Authority; pursuant to and under the terms of this Concession Agreement, the Authority will grant The Developer the right to develop, use and operate the Airplane Hanger Project on the Concession Area. The operating revenue generated from hangar rentals and income from Airport Hangar constructed by The Developer is for the sole use of The Developer. The Authority granted The Developer the right to occupy and manage the Concession Area for a term of 10 years, commencing 5 business days after the issuance of the occupancy permit for the New Facilities. The Airport Authority and The Developer will review the agreement at the end of the 10 year period for possible renewal.

**TUSCOLA AREA AIRPORT AUTHORITY**  
Notes to the Financial Statements  
June 30, 2008 and 2007

**NOTE 10 – CONCESSION AGREEMENT, (Continued):**

Compensation for the rights granted to The Developer is \$72,000 which is payable to the Airport Authority in 9 annual installments of \$8,000 each. The first payment is due on 5/1/07 and on that date each succeeding year thereafter until paid in full.

## OTHER SUPPLEMENTAL INFORMATION

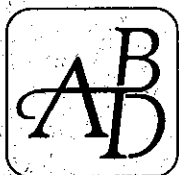


# TUSCOLA AREA AIRPORT AUTHORITY

## Statement of Revenue, Expenses, and Changes in Net Assets - Budget and Actual Year Ended June 30, 2008

|  | ORIGINAL<br>BUDGET | FINAL<br>BUDGET | ACTUAL              | VARIANCE-<br>FAVORABLE<br>(UNFAVORABLE) |
|--|--------------------|-----------------|---------------------|---|
| OPERATING REVENUE:                               |                    |                 |                     |   |
| Gas sales  | \$ 68,000          | \$ 55,850       | \$ 55,207           | \$ (643)                                |
| Jet fuel   | 10,000             | 11,000          | 19,010              | 8,010                                   |
| Hangar rentals                                   | 37,500             | 40,225          | 38,829              | (1,396)                                 |
| Concession agreement                             | 8,000              | 7,188           | 8,000               | 812                                     |
| Miscellaneous income                             | 3,600              | 2,600           | 375                 | (2,225)                                 |
| Total Operating Revenue                          | 127,100            | 116,863         | 121,421             | 4,558                                   |
| OPERATING EXPENSES:                              |                    |                 |                     |   |
| Contract Employees                               | 13,550             | 13,535          | 13,534              | 1                                       |
| Operating supplies                               | 5,750              | 17,250          | 18,539              | (1,289)                                 |
| Contracted services                              | 12,000             | 22,000          | 21,816              | 184                                     |
| Telephone  | 2,200              | 2,315           | 2,288               | 27                                      |
| Insurance  | 15,573             | 12,763          | 12,763              | -                                       |
| Heat, light & power                              | 7,000              | 11,500          | 10,260              | 1,240                                   |
| Maintenance & miscellaneous                      | 3,750              | 8,500           | 2,548               | 5,952                                   |
| Bad Debts  |                    | 3,000           | 4,753               | (1,753)                                 |
| Depreciation                                     | 51,000             | 49,000          | 162,302             | (113,302)                               |
| Fuel purchases                                   | 62,000             | 55,000          | 58,013              | (3,013)                                 |
| Total Operating Expenses                         | 172,823            | 194,863         | 306,816             | (111,953)                               |
| OPERATING INCOME (LOSS)                          | (45,723)           | (78,000)        | (185,395)           | (107,395)                               |
| NON-OPERATING REVENUE (EXPENSES):                |                    |                 |                     |   |
| Contributions from members and other local units | 75,917             | 85,718          | 78,417              | (7,301)                                 |
| Donations  | 300                | 100             | -                   | (100)                                   |
| Interest income                                  | 800                | 1,426           | 1,514               | 88                                      |
| Interest expense                                 | (4,178)            | (4,178)         | (5,086)             | (908)                                   |
| TOTAL NON-OPERATING REVENUE (EXPENSES)           | 72,839             | 83,066          | 74,845              | (8,221)                                 |
| NET INCOME - Before capital contributions        | 27,116             | 5,066           | (110,550)           | (115,616)                               |
| CAPITAL CONTRIBUTIONS                            | 20,000             | 1,000           | 257,566             | 256,566                                 |
| NET INCOME (LOSS)                                | \$ 47,116          | \$ 6,066        | 147,016             | \$ 140,950                              |
| NET ASSETS - JULY 1                              |                    |                 | 3,469,989           |   |
| NET ASSETS - JUNE 30                             |                    |                 | <u>\$ 3,617,005</u> |   |

The accompanying footnotes are an integral part of the financial statements.



# ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.

Certified Public Accountants

Gary R. Anderson, CPA  
Jerry J. Bernhardt, CPA  
Thomas B. Doran, CPA  
Valerie J. Hartel, CPA  
Terry L. Haske, CPA  
Jamie L. Peasley, CPA  
Timothy Franzel

Robert L. Tuckey, CPA

## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

November 21, 2008

To the Board of Directors  
Tuscola Area Airport Authority  
Caro, MI 48723

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Tuscola Area Airport Authority as of and for the year ended June 30, 2008, which collectively comprise Tuscola Area Airport Authority basic financial statements and have issued our report thereon dated November 21, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Tuscola Area Airport Authority internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement in the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control. We consider the deficiencies described as 2008-1, 2008-2, and 2008-3 in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting.

715 East Frank Street  
Caro, MI 48723

989-673-3137  
800-234-8829  
Fax 989-673-3375

[www.atbdcpa.com](http://www.atbdcpa.com)  
[cpa@atbdcpa.com](mailto:cpa@atbdcpa.com)

Office locations in Caro,  
Cass City & Marlette

Board of Directors  
Tuscola Area Airport Authority  
November 21, 2008

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, the significant deficiency described above as 2008-1, 2008-2, 2008-3 we consider to be material weaknesses.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Tuscola Area Airport Authority financial statements are free of material misstatement, we performed test of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as items 2008-1, 2008-2, 2008-3.

Tuscola Area Airport Authority responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit Tuscola Area Airport Authority responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the board of directors, management and federal and state awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Anderson, Tuckey, Bernhardt & Doran, P.C.*

ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS

November 21, 2008

To the Board Directors  
Tuscola Area Airport Authority  
Caro, MI 48723

## Schedule of Findings and Responses

### Findings considered material weaknesses

#### **Finding 2008-1**

##### Criteria:

Effective for the year ended June 30, 2008, Statement on Auditing Standards #112 titled *Communicating Internal Control Related Matters Identified in an Audit* (issued May 2006), requires us to communicate in writing when a client requires assistance to prepare the footnotes required in the annual audit report in accordance with accounting principles generally accepted in the United States of America.

##### Condition:

After considering the qualifications of the accounting personnel of Tuscola Area Airport Authority, we believe that the personnel have the abilities to maintain the day-to-day bookkeeping of the Authority, but they do not have the qualifications and abilities to generate financial statements, including required footnotes, in accordance with accounting principles generally accepted in the United States of America.

##### Cause:

The staff of the authority does understand all information included in the annual financial statements; however, we assist in preparing the financial statements and related footnotes.

##### Effect:

We assist management with the external financial reporting responsibility to ensure their financial statements are accurate.

##### Recommendation:

We do not recommend any changes to this situation at this time and communicate this as required by professional standards. We believe this meets the definition of a material weakness as defined in Statement on Auditing Standards #112.

Client Response: We are aware of this deficiency and believe it is not cost beneficial in our situation to develop this expertise. We will continue to use our external auditors for this technical assistance. We would expect this situation to be ongoing in future years.

November 21, 2008

To the Board of Directors  
Tuscola Area Airport Authority  
Caro, MI 48723

### Schedule of Findings and Responses

#### Findings considered material weaknesses (continued)

##### **Finding 2008-2**

###### Criteria:

Statement on Auditing Standards #112 titled *Communicating Internal Control Related to Matters Identified in an Audit* (issues May 2009), requires us to communicate in writing when a client has a small staff size that limits the segregation of duties.

###### Condition:

Due to the limited number of staff, many critical duties are combines and given to the available staff.

###### Cause:

The Authority doesn't have enough staff in the business office to have proper segregation of duties.

###### Context:

Internal controls are weakened due to the lack of segregation of duties.

###### Effect:

Other staff members and/or contracted staff must be utilized in order to achieve good internal controls.

###### Recommendation:

At this time, we recommend the Authority segregate the duties whenever possible and communicate this as required by professional standards. The correct process meets the definition of significant deficiency as defined in Statement on Auditing Standards #112.

###### Client Response:

We are aware of this deficiency and believe it is not cost beneficial to hire additional staff at this time. We will try to use contract staff to segregate duties whenever possible. We would expect this situation to be ongoing in future years.

November 21, 2008

To the Board of Directors  
Tuscola Area Airport Authority  
Caro, MI 48723

### Schedule of Findings and Responses

#### Findings considered material weaknesses (continued)

##### **Finding 2008-3**

Criteria:

Material adjustments had to be made during the audit.

Condition:

Adjustments were not made to accurately reflect the transactions taking place at year end.

Context:

Failure to make material adjustments increases the risk that the financial statements will be materially misstated.

Cause:

Oversight by the staff and management to record journal entries that properly reflect the transactions that have occurred at year end.

Effect:

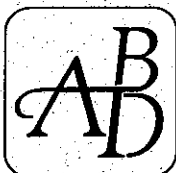
Inaccurate financial information may be used for management decisions and reporting.

Recommendation:

The Authority should review year end transactions and record journal entries for any transaction not recorded.

Client Response:

We will review and make any necessary journal entries to our financial statements as the transaction occurs.



# ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.

## Certified Public Accountants

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Gary R. Anderson, CPA  
Jerry J. Bernhardt, CPA  
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Timothy Franzel

.....  
Robert L. Tuckey, CPA

November 21, 2008

To the Members of the Board  
Tuscola Area Airport Authority

We have audited the financial statements of the governmental activities, and the major funds of Tuscola Area Airport Authority for the year ended June 30, 2008, and have issued our report thereon dated November 21, 2008. Professional standards require that we provide you with the following information related to our audit.

### Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated July 18, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

### Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on August 14, 2008.

### Significant Audit Findings

#### Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Tuscola Area Airport Authority are described in Note 1 to the financial statements. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

#### Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

715 East Frank Street  
Caro, MI 48723

989-673-3137  
800-234-8829  
Fax 989-673-3375

[www.atbdcpa.com](http://www.atbdcpa.com)  
[cpa@atbdcpa.com](mailto:cpa@atbdcpa.com)

Office locations in Caro,  
Cass City & Marlette

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 21, 2008.

Management Consultations with Other Independent Accountants


In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Members of the Board and management of the Tuscola Area Airport Authority and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

  
Anderson, Tuckey, Bernhardt, & Doran, P.C.  
Certified Public Accountants